

Basis of Accounting and Budgeting

Background

There are essentially four basic differences between the budgetary basis of accounting and Generally Accepted Accounting Principles (GAAP) for state and local governments. (1) *Basic differences* occur when the basis of accounting used for budgeting (cash basis plus encumbrances) differs from the GAAP prescribed basis of accounting for governmental funds (modified accrual basis). (2) *Timing differences* occur when the period used for budgeting differs from the period used for GAAP reporting. For example, a special revenue fund that uses a grant-year budget rather than a fiscal-year budget. (3) *Perspective differences* occur when the fund structure used for budgeting (such as a single general fund) differs from the fund structure used for GAAP financial reporting such as a combination of different governmental fund types. (4) *Entity differences* occur when the budget includes programs or entities that do not fall within the financial entity as defined by GAAP.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity (corresponding to a corporation in the private sector) having its own assets, liabilities, equity, revenue and expenditures/expenses. The types of funds used are determined by generally accepted accounting principles. The number of funds established within each type is determined by sound financial administration. Specialized accounting and reporting principles and practices apply to governmental and expendable trust funds. Proprietary, component units and pension trust funds are accounted for in the same manner as similar business enterprises or nonbusiness organizations.

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Basis of Budgeting

The basis of budgeting refers to the recognition of costs and revenue in budget development and in establishing and reporting appropriations, that are the legal authority to spend or collect revenues. The District uses a modified accrual basis for budgeting governmental funds. Proprietary funds are budgeted using accrual concepts. All operating and capital expenditures and revenue are identified in the budgeting process because of the need for appropriation authority.

The final approved budget is loaded in the automated accounting system at the beginning of the fiscal year or shortly thereafter, and during preparation of the CAFR at the end of the fiscal year, the budget is fully reconciled to the accounting system. A number of GAAP adjustments are made to reflect balance sheet requirements and their effect on the budget. These include changes in designations and recognition, via studies and analysis, of accrued liabilities. Amounts needed for future payoff of long-term liabilities, including accumulated employee vacation, are budgeted as projections and, once recognized, are adjusted for actual amounts.

Budgetary Control

The District maintains budgetary controls to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the United States Congress. A project-length financial plan is adopted for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is adopted for the Capital Projects Funds. For the General Fund, the District maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Fund.

The budgetary general fund differs from GAAP by including the Financial Responsibility Authority special revenue fund and the University of the District of Columbia discretely presented component unit and by excluding the Retirement Board and the Correctional Industries Division. The Financial Responsibility Authority recognizes budgetary expenditures when orders and contracts are issued rather than when goods and services are received.